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(i) Creates a principal and/or agent relationship between the contractor and the manager; and

(ii) Sets forth the items, services, and activities to be provided by the manager.

(b) Documentation demonstrates the services contracted for were actually delivered, were nonduplicative of other services rendered to the facility directly or indirectly, and the services were necessary to care for the residents of the facility. Fees are allowable only for such necessary, nonduplicative services to the extent they are of the nature and magnitude that prudent and cost-conscious management would pay.

(3) Allowable fees for all general management services of any kind referenced in this section, including corporate or business entity management and board of director's fees and including management fees not allocated to specific services, are subject to any applicable cost center limit established by this chapter.

(4) A management fee paid to or for the benefit of a related organization shall be allowable at the lower of the actual cost to the related organization of providing necessary services related to patient care under the agreement, or the cost of comparable services purchased elsewhere. Where costs to the related organization represent joint facility costs, the department shall comply with WAC 388-96-534 in measuring such costs.

(5) Central office costs, owner's compensation, and other fees or compensation, including joint facility costs, for general administrative and management services, including the management expense not allocated to specific services, shall be subject to any cost center limit established by this chapter.

(6) Necessary travel and housing expenses of nonresident staff working at a contractor's nursing facility shall be considered allowable costs if the visit does not exceed three weeks.

(7) Bonuses paid to employees at a contractor's nursing facility shall be considered compensation.

(8) As similarly provided in WAC 388-96-210 regarding field audits, the department shall commence to apply a facility's peer group median cost plus percentage limit in the administrative cost area, in place of management fee limits previously contained in this section, beginning with report year 1992.

[Statutory Authority: RCW 74.46.800 and 74.09.120. 93-19-074 (Order 3634). § 388-96-535, filed 9/14/93, effective 10/15/93. Statutory Authority: 1987 c 476. 88-01-126 (Order 2573). § 388-96-535, filed 12/23/87. Statutory Authority: RCW 74.46.800. 86-10-055 (Order 2372). § 388-96-535, filed 5/7/86, effective 7/1/86. Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025). § 388-96-535, filed 9/16/83. 81-22-081 (Order 1712). § 388-96-535, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613). § 388-96-535, filed 2/25/81. Statutory Authority: RCW 74.09.120. 80-09-083 (Order 1527). § 388-96-535, filed 7/22/80. 79-03-020 (Order 1371). § 388-96-535, filed 2/21/79. Order 1262. § 388-96-535, filed 12/30/77.]

WAC 388-96-543 Expense for construction interest. Interest expense and loan origination fees relating to construction of a nursing home incurred during the period of construction shall be capitalized and amortized over the life of the facility from the date the first patient is admitted. The period of construction shall extend from the date of the construction loan to the date the facility is put into service

for patient care, not to exceed the project certificate of need time period.

[Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025). § 388-96-543, filed 9/16/83. 81-22-081 (Order 1712). § 388-96-543, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613). § 388-96-543, filed 2/25/81. Order 1262. § 388-96-543, filed 12/30/77.]

WAC 388-96-553 Capitalization. The following costs shall be capitalized:

(1) Expenditures for and costs of equipment, including furniture and furnishings, with historical cost in excess of one hundred fifty dollars per unit and a useful life of more than one year from the date of purchase;

(2) Expenditures and costs for equipment, including furniture and furnishings, with historical cost of one hundred fifty dollars or less per unit if either:

(a) The item of equipment was acquired in a group purchase where the total cost exceeded one hundred fifty dollars; or

(b) The item of equipment was part of the initial equipment or stock of the nursing home.

(3) Effective January 1, 1981, for settlement purposes for periods subsequent to that date, and for purposes of setting rates for periods beginning July 1, 1982, and subsequently, subsections (1) and (2) of this section shall be applied with the sum of five hundred dollars replacing the sum of one hundred fifty dollars.

(4) Effective January 1, 1983, for settlement purposes for periods subsequent to that date, and for purposes of setting rates for periods beginning July 1, 1984, and subsequently subsections (1) and (2) of this section shall be applied with the sum of seven hundred fifty dollars replacing the sum of one hundred fifty dollars.

(5) Expenditures for and costs of building, and other real property items, components, and improvements, whether for leased or owner-operated facilities, in excess of five hundred dollars and involving one or more of the following:

(a) Increase of the interior floor space of the structure;

(b) Increase or renewal of paved areas outside the structure;

(c) Exterior or interior remodeling of the structure;

(d) Installation of additional heating, cooling, electrical, water-related, or similar fixed equipment;

(e) Landscaping or redecorating;

(f) Any change, including repairs, which increases the useful life of the structure or item if not a part of the structure by two years or more;

(g) Any replacement or renewal of a real property item, component or improvement, whether structural or nonstructural.

(6) For a leasehold improvement, the asset shall be amortized over the asset's useful life in accordance with Internal Revenue Service class life ADR system guidelines or in accordance with American Hospital Association guidelines.

[Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025). § 388-96-553, filed 9/16/83. 83-05-007 (Order 1944). § 388-96-553, filed 2/4/83. 82-11-065 (Order 1808). § 388-96-553, filed 5/14/82. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613). § 388-96-553, filed 2/25/81. Order 1262. § 388-96-553, filed 12/30/77.]

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WAC 388-96-554 Expensing. The following costs shall be expensed:

(1) Expenditures for and costs of equipment, including furniture and furnishings, with historical cost of one hundred fifty dollars or less per unit or a useful life of one year or less from the date of purchase.

(2) Subsection (1) of this section shall not apply if:

(a) The item of equipment was acquired in a group purchase where the total cost exceeded one hundred fifty dollars; or

(b) The item of equipment was part of the initial equipment or stock of the nursing home.

(3) Effective January 1, 1981, for settlement purposes for periods subsequent to that date, and for purposes of setting rates for periods beginning July 1, 1982, and subsequently, subsections (1) and (2) of this section shall be applied with the sum of five hundred dollars replacing the sum of one hundred fifty dollars.

(4) Effective January 1, 1983, for settlement purposes for periods subsequent to that date, and for purposes of setting rates for periods beginning July 1, 1984, and subsequently subsections (1) and (2) of this section shall be applied with the sum of seven hundred fifty dollars replacing the sum of one hundred fifty dollars.

(5) Expenditures for and costs of building and other real property items, components and improvements, whether for leased or owner-operated facilities, of five hundred dollars or less.

(6) Expenditures for and costs of repairs necessary to maintain the useful life of equipment, including furniture and furnishings, and real property items, components or improvements which do not increase the useful life of the asset by two years or more. If a repair is to the interior or exterior of the structure, the term "asset" shall refer to the structure.

(7) Remaining un depreciated cost of equipment, including furniture or furnishings or real property items, components, or improvements which are retired and not replaced, provided such cost shall be offset by any proceeds or compensations received for such assets, and such cost shall be expensed only if the contractor has made a reasonable effort to recover at least the outstanding book value of such assets. If a retired asset is replaced, WAC 388-96-572(3) shall apply and the replacement or renewal shall be capitalized if required by WAC 388-96-553.

[Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-554, filed 9/16/83; 83-05-007 (Order 1944), § 388-96-554, filed 2/4/83.]

WAC 388-96-555 Depreciation expense. Depreciation expense on depreciable assets which are required in the regular course of providing patient care will be an allowable cost. It shall be (1) identifiable and recorded in the contractor's accounting records and (2) computed using the depreciation base, lives and methods specified below.

[Order 1262, § 388-96-555, filed 12/30/77.]

WAC 388-96-557 Depreciable assets. (1) Tangible assets of the following types in which a contractor has an economic interest through ownership or lease agreement are subject to depreciation:

(a) Building - The basic structure or shell and additions thereto.

(b) Building fixed equipment - Attachments to buildings, such as wiring, electrical fixtures, plumbing, elevators, heating system, and air conditioning system. The general characteristics of this equipment are:

(i) Affixed to the building and not subject to transfer; and

(ii) A fairly long life, but shorter than the life of the building to which affixed.

(c) Major movable equipment - Such items as beds, wheelchairs, desks, and x-ray machines. The general characteristics of this equipment are:

(i) A relatively fixed location in the building;

(ii) Capable of being moved as distinguished from building equipment;

(iii) A unit cost sufficient to justify ledger control;

(iv) Sufficient size and identity to make control feasible by means of identification tags; and

(v) A minimum life of approximately three years. Effective January 1, 1981, for settlement purposes for periods subsequent to that date, and for purposes of setting rates for periods beginning July 1, 1982, and subsequently, this equipment shall be characterized by a minimum life of greater than one year.

(d) Minor equipment - Such items as wastebaskets, bedpans, syringes, catheters, silverware, mops, and buckets which are properly capitalized. No depreciation shall be taken on items which are not properly capitalized (see WAC 388-96-553). The general characteristics of minor equipment are:

(i) In general, no fixed location and subject to use by various departments;

(ii) Small in size and unit cost;

(iii) Subject to inventory control;

(iv) Large number in use; and

(v) Generally, a useful life of one to three years.

(e) Land improvements - Such items as paving, tunnels, underpasses, on-site sewer and water lines, parking lots, shrubbery, fences, walls, etc., where replacement is the responsibility of the contractor.

(f) Leasehold improvements - Betterments and additions made by the lessee to the leased property, which become the property of the lessor after the expiration of the lease.

(2) Land is not depreciable. The cost of land includes, but is not limited to, the cost of such items as off-site sewer and water lines, public utility charges necessary to service the land, governmental assessments for street paving and sewers, the cost of permanent roadways and grading of a nondepreciable nature, and the cost of curbs and sidewalks, replacement of which is not the responsibility of the contractor.

[Statutory Authority: RCW 74.09.120, 84-24-050 (Order 2172), § 388-96-557, filed 12/4/84; 83-19-047 (Order 2025), § 388-96-557, filed 9/16/83; 81-22-081 (Order 1712), § 388-96-557, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-557, filed 2/25/81; Order 1262, § 388-96-557, filed 12/30/77.]

WAC 388-96-559 Cost basis of land and depreciation base. (1) For all partial or whole rate periods after December 31, 1984, the total depreciation base of depreciable assets and the cost basis of land shall be the lowest of:

(a) The contractor's appraisal, if any;

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(b) The department's appraisal obtained through the department of general administration of the state of Washington, if any; or

(c) The historical purchase cost of the contractor, or lessor if the assets are leased by the contractor, in acquiring ownership of the asset in an arm's-length transaction, and preparing the asset for use, less goodwill, and less accumulated depreciation, if applicable, incurred during periods the assets have been used in or as a facility by any and all contractors. Such accumulated depreciation is to be measured in accordance with subsection (5) of this section and WAC 388-96-561, 388-96-565, and 388-96-567. Where the straight-line or sum-of-the-years digits method of depreciation is used the contractor:

(i) May deduct salvage values from historical costs for each cloth based item, e.g., mattresses, linen, and draperies; and

(ii) Shall deduct salvage values from historical costs of at least:

(A) Five percent of the historical value for each noncloth item included in moveable equipment; and

(B) Twenty-five percent of the historical value for each vehicle.

(2) Unless otherwise provided or limited by this chapter or by chapter 74.46 RCW, the department shall, in determining the total depreciation base of a depreciable real or personal asset owned or leased by the contractor, deduct depreciation relating to all periods subsequent to the more recent of:

(a) The date such asset was first used in the medical care program; or

(b) The most recent date such asset was acquired in an arm's-length purchase transaction which the department is required to recognize for Medicaid cost reimbursement purposes.

No depreciation shall be deducted for periods such asset was not used in the medical care program or was not used to provide nursing care.

(3) The department may have the fair market value of the asset at the time of purchase established by appraisal through the department of general administration of the state of Washington if:

(a) The department challenges the historical cost of an asset; or

(b) The contractor cannot or will not provide the historical cost of a leased asset and the department is unable to determine such historical cost from its own records or from any other source.

The contractor may allocate or reallocate values among land, building, improvements, and equipment in accordance with the department's appraisal.

If an appraisal is conducted, the depreciation base of the asset and cost basis of land will not exceed the fair market value of the asset. An appraisal conducted by or through the department of general administration shall be final unless the appraisal is shown to be arbitrary and capricious.

(4) For leased assets, the department may examine documentation in its files or otherwise obtainable from any source to determine:

(a) The lessor's purchase acquisition date; or

(b) The lessor's historical cost at the time of the last arm's-length purchase transaction.

If the department is unable to determine the lessor's acquisition date by review of its records or other records, the department, in determining fair market value as of such date, may use the construction date of the facility, as found in the state fire marshal's records or other records, as the lessor's purchase acquisition date of leased assets.

(5) For all rate periods past or future, where depreciable assets or land are acquired from a related organization, the contractor's depreciation base and land cost basis shall not exceed the base and basis the related organization had or would have had under a contract with the department.

(6) If a contractor cannot or will not provide the lessor's purchase acquisition cost of assets leased by the contractor and the department is unable to determine historical purchase cost from another source, the appraised asset value of land, building, or equipment, determined by or through the department of general administration shall be adjusted, if necessary, by the department using the *Marshall and Swift Valuation Guide* to reflect the value at the lessor's acquisition date. If an appraisal has been prepared for leased assets and the assets subsequently sell in the first arm's-length transaction since January 1, 1980, under subsection (8) of this section, the *Marshall and Swift Valuation Guide* will be used to adjust, if necessary, the asset value determined by the appraisal to the sale date. If the assets are located in a city for which the *Marshall and Swift Valuation Guide* publishes a specific index, or if the assets are located in a county containing that city, the city-specific index shall be used to adjust the appraised value of the asset. If the assets are located in a city or county for which a specific index is not calculated, the *Western District Index* calculated by Marshall and Swift shall be used.

(7) For all rates effective on or after January 1, 1985, if depreciable assets or land are acquired by purchase which were used in the medical care program on or after January 1, 1980, the depreciation base or cost basis of such assets shall not exceed the net book value existing at the time of such acquisition or which would have existed had the assets continued in use under the previous Medicaid contract with the department: except that depreciation shall not be accumulated for periods during which such assets were not used in the medical care program or were not in use in or as a nursing care facility.

(8)(a) Subsection (7) of this section shall not apply to the most recent arm's-length purchase acquisition if it occurs ten years or more after the previous arm's-length transfer of ownership nor shall subsection (7) of this section apply to the first arm's-length purchase acquisition of assets occurring on or after January 1, 1980, for facilities participating in the Medicaid program before January 1, 1980. The depreciation base or cost basis for such acquisitions shall not exceed the lesser of the fair market value as of the date of purchase of the assets determined by an appraisal conducted by or through the department of general administration or the owner's acquisition cost of each asset, land, building, or equipment. An appraisal conducted by or through the department of general administration shall be final unless the appraisal is shown to be arbitrary and capricious. Should a contractor request a revaluation of an asset, the contractor must document ten years have passed since the most recent arm's-length transfer of ownership. As mandated by Section

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(3) Contractors shall depreciate building improvements over the remaining useful life of the building, as modified by the improvement, but not less than fifteen years.

(4) Improvements to leased property which are the responsibility of the contractor under the terms of the lease shall be depreciated over the useful life of the improvement.

(5) A contractor may change the estimate of an asset's useful life to a longer life for purposes of depreciation.

[Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-565, filed 5/26/94, effective 6/26/94. Statutory Authority: RCW 74.09.180 and 74.46.800, 89-01-095 (Order 2742), § 388-96-565, filed 12/21/88. Statutory Authority: RCW 74.46.800, 87-09-058 (Order 2485), § 388-96-565, filed 4/20/87, 86-10-055 (Order 2372), § 388-96-565, filed 5/7/86, effective 7/1/86. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-565, filed 9/16/83; 81-22-081 (Order 1712), § 388-96-565, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-565, filed 2/25/81; Order 1262, § 388-96-565, filed 12/30/77.]

WAC 388-96-567 Methods of depreciation. (1) Buildings, building improvements, land improvements, leasehold improvements, and fixed equipment shall be depreciated using the straight-line method. Major-minor equipment shall be depreciated using either the straight-line method, the sum-of-the-years digits method, or declining balance method not to exceed one hundred fifty percent of the straight-line rate. Contractors which have elected to take either the sum-of-the-years digits method or the declining balance method of depreciation on major-minor equipment may change to the straight-line method without permission of the department.

(2) The annual provision for depreciation shall be reduced by the portion allocable to use of the asset for purposes not both necessary and related to patient care.

(3) No further depreciation shall be claimed after an asset has been fully depreciated unless a new depreciation base is established pursuant to WAC 388-96-559.

[Statutory Authority: RCW 74.46.800, 86-10-055 (Order 2372), § 388-96-567, filed 5/7/86, effective 7/1/86. Statutory Authority: RCW 74.09.120, 74.46.840 and 74.46.800, 85-17-052 (Order 2270), § 388-96-567, filed 8/19/85. Statutory Authority: RCW 74.09.120, 81-22-081 (Order 1712), § 388-96-567, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-567, filed 2/25/81; Order 1262, § 388-96-567, filed 12/30/77.]

WAC 388-96-569 Retirement of depreciable assets.

(1) Where depreciable assets are disposed of through sale, trade-in, scrapping, exchange, theft, wrecking, or fire or other casualty, depreciation shall no longer be taken on the assets. No further depreciation shall be taken on permanently abandoned assets.

(2) Where an asset has been retired from active use but is being held for stand-by or emergency service, and the department has determined that it is needed and can be effectively used in the future, depreciation may be taken.

(3) For rate setting effective July 1, 1991 through June 30, 1993, if a Medicaid contractor or lessor related to a lessee Medicaid contractor, as defined in this chapter, sells any or all of the nursing facility's tangible and/or intangible assets, including, but not limited to, land, building, equipment, supplies, goodwill, and beds authorized by certificate of need, the department shall recover depreciation reimbursement paid to the selling contractor or lessee related to the

depreciation reimbursement only to the extent there was a gain on sale as defined in this chapter. Further, the department shall recover depreciation reimbursement for depreciation from July 1, 1991, forward only.

(4) Recovery of depreciation reimbursement as authorized in this section shall apply to all transfers of assets by sale on or after July 1, 1991, unless pursuant to an enforceable agreement in place prior to July 1, 1991, and on file with the department's rates management office on or before December 31, 1991.

(5) Recovery of depreciation reimbursement shall be from the buyer whether or not such buyer operates the nursing facility or is a Medicaid contractor. If recovery cannot be made from the buyer in whole or in part, the amount due shall be recovered from the selling contractor or selling lessor related to the contractor. If the buyer leases some or all of the assets purchased to a related party or organization as defined in this chapter, the department may recover directly from such related party or organization. The total amount subject to recovery shall be due and payable immediately after transfer of the assets by sale. However, the department may establish a repayment schedule to recover depreciation reimbursement for a period not to exceed six months after the transfer by sale.

(6) If repayment is not made immediately or commenced and maintained in accordance with a repayment schedule agreeable to the department, the department shall deduct the recovery from the monthly payments, if any, for Medicaid services made to the buyer, or from payments, if any, made to a contractor related to the buyer as defined in this chapter. Such method of recovery shall be in addition to all other means of recovering debt to the state authorized by law.

(7) The depreciation base of depreciable assets and the cost basis of nondepreciable assets for all partial or whole Medicaid rate periods after the sale shall be established or continued in accordance with the provisions of this chapter. Neither shall be adjusted to reflect any liability for recovery of depreciation reimbursement. Upon request, the department shall provide to any prospective buyer or seller of nursing facility assets the total depreciation reimbursement paid from July 1, 1991 through June 30, 1993 to the selling contractor or lessee related to the selling lessor.

[Statutory Authority: RCW 74.46.800 and 74.09.120, 93-19-074 (Order 3634), § 388-96-569, filed 9/14/93, effective 10/15/93; 91-22-025 (Order 3270), § 388-96-569, filed 10/29/91, effective 11/29/91; 81-06-024 (Order 1613), § 388-96-569, filed 2/25/81; Order 1262, § 388-96-569, filed 12/30/77.]

WAC 388-96-571 Handling of gains and losses upon retirement of depreciable assets settlement periods prior to 1/1/81 and rate periods prior to 7/1/82. (1) For settlement purposes for periods prior to January 1, 1981, and for rate-setting purposes for periods prior to July 1, 1982, gains and losses on the retirement of depreciable assets either during the period of participation in the program or within twelve months following termination, shall be treated in accordance with this section.

(2) A gain or loss on the retirement of an asset shall be the difference between the remaining undepreciated base and

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asset. For purposes of subsections (3) and (4) of this section, the total gain shall be reduced by one percent for each month of ownership of an asset with an expected useful life of one hundred months or longer. For an asset with an expected useful life of less than one hundred months, total gain shall be reduced by the portion thereof equal to the ratio of the actual life of the asset from its most recent arms-length acquisition up to the date of retirement to its expected useful life.

(3) If the retired asset is replaced, the gain or loss shall be applied against or added to the cost of the replacement asset, provided that a loss will only be so applied if the contractor has made a reasonable effort to recover at least the outstanding book value of the asset.

(4) If the retired asset is not replaced, or if the contractor is terminating its contract, the gain or loss shall be spread over the actual life of the asset up to the date of retirement, provided that a loss will only be so spread if the contractor has made a reasonable effort to recover at least the outstanding book value of the asset. The difference between reimbursement actually paid for depreciation in any period beginning on or after January 1, 1978, and the reimbursement for depreciation which would have been paid with the base adjusted to reflect the gain or loss, will be computed. Where the difference results from a gain, it shall be recovered by the department. Where the difference results from a loss, it will be added to allowable costs for purposes of determining settlement.

[Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613), § 388-96-571, filed 2/25/81. Statutory Authority: RCW 74.08.090 and 74.09.120. 78-06-080 (Order 1300), § 388-96-571, filed 6/1/78; Order 1362, § 388-96-571, filed 12/30/77.]

WAC 388-96-572 Handling of gains and losses upon retirement of depreciable assets—Other periods. (1) This section shall apply in the place of WAC 388-96-571 effective January 1, 1981, for purposes of settlement for settlement periods subsequent to that date, and for purposes of setting rates for rate periods beginning July 1, 1982, and subsequently.

(2) A gain or loss on the retirement of an asset shall be the difference between the remaining undepreciated base and any proceeds received for, or to compensate for loss of, the asset.

(3) If the retired asset is replaced, the gain or loss shall be applied against or added to the cost of the replacement asset, provided that a loss will only be so applied if the contractor has made a reasonable effort to recover at least the outstanding book value of the asset.

(4) If the retired asset is not replaced, any gain shall be offset against property expense for the period during which it is retired and any loss shall be expensed subject to the provisions of WAC 388-96-554(7).

[Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120. 93-12-051 (Order 3555), § 388-96-572, filed 5/26/93, effective 6/26/93. Statutory Authority: RCW 74.09.120. 83-19-047 (Order 2025), § 388-96-572, filed 9/16/83. Statutory Authority: RCW 74.09.120 and 74.46.800. 81-06-024 (Order 1613), § 388-96-572, filed 2/25/81.]

WAC 388-96-573 Recovery of excess over straight-line depreciation. This section shall apply to settlement

periods prior to January 1, 1981, only. If a contractor terminates its contract without selling or otherwise retiring equipment which was depreciated using an accelerated method, depreciation schedules relating to these assets for periods during which the contractor participated in the program shall be adjusted. The difference between reimbursement actually paid for depreciation in any period beginning on or after January 1, 1978, and the reimbursement which would have been paid for depreciation if the straight-line method had been used, will be recovered by the department.

[Statutory Authority: RCW 74.09.120. 83-05-007 (Order 1944), § 388-96-573, filed 2/4/83; Order 1262, § 388-96-573, filed 12/30/77.]

WAC 388-96-580 Operating leases of office equipment. Rental costs of office equipment under arm's-length operating leases shall be allowable to the extent such costs are necessary, ordinary, and related to patient care. Beginning January 1, 1985, office equipment rental costs shall be reimbursed in the administration and operations cost center. Office equipment may include items typically used in administrative or clerical functions such as telephones, copy machines, desks and chairs, calculators and adding machines, file cabinets, typewriters, and computers. However, expenses of leasing computers may not be reimbursed in excess of ten cents per patient day. Effective with July 1, 1993 rate setting, office equipment rental costs shall be reimbursed in the administrative cost center.

[Statutory Authority: RCW 74.46.800 and 74.09.120. 93-19-074 (Order 3634), § 388-96-580, filed 9/14/93, effective 10/15/93. Statutory Authority: RCW 74.09.120, 74.46.840 and 74.46.800. 85-17-052 (Order 2270), § 388-96-580, filed 8/19/85. Statutory Authority: RCW 74.09.120. 84-24-050 (Order 2172), § 388-96-580, filed 12/4/84. Statutory Authority: RCW 74.46.800. 84-12-039 (Order 2105), § 388-96-580, filed 5/30/84.]

See WSR 95-14-119

WAC 388-96-585 Unallowable costs. (1) The department shall not allow costs if not documented, necessary, ordinary, and related to the provision of care services to authorized patients.

(2) The department shall include, but not limit unallowable costs to the following:

(a) Costs of items or services not covered by the medical care program. Costs of nonprogram items or services even if indirectly reimbursed by the department as the result of an authorized reduction in patient contribution;

(b) Costs of services and items covered by the Medicaid program but not included in the Medicaid nursing facility daily payment rate. Items and services covered by the Medicaid nursing facility daily payment rate are listed in chapters 388-86 and 388-88 WAC;

(c) Costs associated with a capital expenditure subject to Section 1122 approval (Part 100, Title 42 C.F.R.) if the department found the capital expenditure inconsistent with applicable standards, criteria, or plans. If the contractor did not give the department timely notice of a proposed capital expenditure, all associated costs shall be nonallowable as of the date the costs are determined not to be reimbursable under applicable federal regulations;

(d) Costs associated with a construction or acquisition project requiring certificate of need approval pursuant to chapter 70.38 RCW if such approval was not obtained;

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(e) Costs of outside activities (e.g., costs allocable to the use of a vehicle for personal purposes or related to the part of a facility leased out for office space);

(f) Salaries or other compensation of owners, officers, directors, stockholders, and others associated with the contractor or home office, except compensation paid for service related to patient care;

(g) Costs in excess of limits or violating principles set forth in this chapter;

(h) Costs resulting from transactions or the application of accounting methods circumventing the principles of the prospective cost-related reimbursement system;

(i) Costs applicable to services, facilities, and supplies furnished by a related organization in excess of the lower of the cost to the related organization or the price of comparable services, facilities, or supplies purchased elsewhere;

(j) Bad debts. Beginning July 1, 1983, the department shall allow bad debts of Title XIX recipients only if:

(i) The debt is related to covered services;

(ii) It arises from the recipient's required contribution toward the cost of care;

(iii) The provider can establish reasonable collection efforts were made;

(iv) The debt was actually uncollectible when claimed as worthless; and

(v) Sound business judgment established there was no likelihood of recovery at any time in the future.

Reasonable collection efforts shall consist of three documented attempts by the contractor to obtain payment. Such documentation shall demonstrate the effort devoted to collect the bad debts of Title XIX recipients is at the same level as the effort normally devoted by the contractor to collect the bad debts of non-Title XIX patients. Should a contractor collect on a bad debt, in whole or in part, after filing a cost report, reimbursement for the debt by the department shall be refunded to the department to the extent of recovery. The department shall compensate a contractor for bad debts of Title XIX recipients at final settlement through the final settlement process only.

(k) Charity and courtesy allowances;

(l) Cash, assessments, or other contributions, excluding dues, to charitable organizations, professional organizations, trade associations, or political parties, and costs incurred to improve community or public relations. Any portion of trade association dues attributable to legal and consultant fees and costs in connection with lawsuits or other legal action against the department shall be unallowable;

(m) Vending machine expenses;

(n) Expenses for barber or beautician services not included in routine care;

(o) Funeral and burial expenses;

(p) Costs of gift shop operations and inventory;

(q) Personal items such as cosmetics, smoking materials, newspapers and magazines, and clothing, except items used in patient activity programs where clothing is a part of routine care;

(r) Fund-raising expenses, except expenses directly related to the patient activity program;

(s) Penalties and fines;

(t) Expenses related to telephones, televisions, radios, and similar appliances in patients' private accommodations;

(u) Costs of special care services except where authorized by the department;

(w) Expenses of any employee benefit not in fact made available to all employees on an equal or fair basis in terms of costs to employees and benefits commensurate to such costs, e.g., key-man insurance, other insurance, or retirement plans;

(x) Expenses of profit-sharing plans;

(y) Expenses related to the purchase and/or use of private or commercial airplanes which are in excess of what a prudent contractor would expend for the ordinary and economic provision of such a transportation need related to patient care;

(z) Personal expenses and allowances of owners or relatives;

(aa) All expenses for membership in professional organizations and all expenses of maintaining professional licenses, e.g., nursing home administrator's license;

(bb) Costs related to agreements not to compete;

(cc) Goodwill and amortization of goodwill;

(dd) Expense related to vehicles which are in excess of what a prudent contractor would expend for the ordinary and economic provision of transportation needs related to patient care;

(ee) Legal and consultant fees in connection with a fair hearing against the department relating to those issues where:

(i) A final administrative decision is rendered in favor of the department or where otherwise the determination of the department stands at the termination of administrative review; or

(ii) In connection with a fair hearing, a final administrative decision has not been rendered; or

(iii) In connection with a fair hearing, related costs are not reported as unallowable and identified by fair hearing docket number in the period they are incurred if no final administrative decision has been rendered at the end of the report period; or

(iv) In connection with a fair hearing, related costs are not reported as allowable, identified by docket number, and prorated by the number of issues decided favorably to a contractor in the period a final administrative decision is rendered.

(ff) Legal and consultant fees in connection with a lawsuit against the department, including suits which are appeals of administrative decisions;

(gg) Lease acquisition costs and other intangibles not related to patient care;

(hh) Interest charges assessed by the state of Washington for failure to make timely refund of overpayments and interest expenses incurred for loans obtained to make such refunds;

(ii) Beginning January 1, 1985, lease costs, including operating and capital leases, except for office equipment operating lease costs;

(jj) Beginning January 1, 1985, interest costs;

(kk) Travel expenses outside the states of Idaho, Oregon, and Washington, and the Province of British Columbia. However, travel to or from the home or central office of a chain organization operating a nursing home will be allowed whether inside or outside these areas if such travel is necessary, ordinary, and related to patient care;

(ll) Board of director fees for services in excess of one hundred dollars per board member, per meeting, not to exceed twelve meetings per year;

(mm) Moving expenses of employees in the absence of a demonstrated, good-faith effort to recruit within the states of Idaho, Oregon, and Washington, and the Province of British Columbia;

(nn) For rates effective after June 30, 1993, depreciation expense in excess of four thousand dollars per year for each passenger car or other vehicles primarily used for the administrator, facility staff, or central office staff;

(oo) Any costs associated with the use of temporary health care personnel from any nursing pool not registered with the director of the department of health at the time of such pool personnel use;

(pp) Costs of payroll taxes associated with compensation in excess of allowable compensation for owners, relatives, and administrative personnel;

(qq) Department-imposed postsurvey charges incurred by the facility as a result of subsequent inspections which occur beyond the first postsurvey visit during the certification survey calendar year;

(rr) For all partial or whole rate periods after July 17, 1984, costs of assets, including all depreciable assets and land, which cannot be reimbursed under the provisions of the Deficit Reduction Act of 1984 (DEFRA) and state statutes and regulations implementing DEFRA;

(ss) Effective for July 1, 1991, and all following rates, compensation paid for any purchased nursing care services, including registered nurse, licensed practical nurse, and nurse assistant services, obtained through service contract arrangement in excess of the amount of compensations which would have been paid for such hours of nursing care services had they been paid at the combined regular and overtime average hourly wage, including related taxes and benefits, for in-house nursing care staff of like classification of registered nurse, licensed practical nurse, or nursing assistant at the same nursing facility, as reported on the facility's filed cost report for the most recent cost report period;

(tt) Outside consultation expenses required pursuant to WAC 388-88-135;

(uu) Fees associated with filing a bankruptcy petition under chapters VII, XI, and XII, pursuant to the Bankruptcy Reform Act of 1978, Public Law 95-598;

(vv) All advertising or promotional costs of any kind, except reasonable costs of classified advertising in trade journals, local newspapers, or similar publications for employment of necessary staff.

[Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-585, filed 5/26/94, effective 6/26/94, 93-17-083 (Order 3615), § 388-96-585, filed 8/11/93, effective 9/11/93. Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120, 93-12-051 (Order 3555), § 388-96-585, filed 5/26/93, effective 6/26/93. Statutory Authority: RCW 74.09.120, 91-22-025 (Order 3270), § 388-96-585, filed 10/19/91, effective 11/29/91. Statutory Authority: RCW 74.09.120 and 74.46.800, 90-09-061 (Order 2970), § 388-96-585, filed 4/17/90, effective 5/18/90. Statutory Authority: RCW 74.46.800, 89-17-030 (Order 2847), § 388-96-585, filed 8/8/89, effective 9/8/89. Statutory Authority: RCW 74.09.180 and 74.46.800, 89-01-095 (Order 2742), § 388-96-585, filed 12/21/88. Statutory Authority: RCW 74.46.800, 87-09-058 (Order 2485), § 388-96-585, filed 4/20/87, 86-10-055 (Order 2372), § 388-96-585, filed 5/7/86, effective 7/1/86; 84-12-039 (Order 2105), § 388-96-585, filed 5/30/84. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-585, filed 9/16/83; 82-21-025 (Order 1892), § 388-96-585, filed 10/13/82, 82-11-063 (Order 1808), § 388-

96-585, filed 5/14/82, 81-22-081 (Order 1712), § 388-96-585, filed 11/4/81. Statutory Authority: RCW 74.09.120 and 74.46.800, 81-06-024 (Order 1613), § 388-96-585, filed 2/25/81. Statutory Authority: RCW 74.09.120, 79-04-102 (Order 1357), § 388-96-585, filed 4/4/79. Statutory Authority: RCW 74.08.090 and 74.09.120, 78-06-080 (Order 1300), § 388-96-585, filed 6/1/78, Order 1262, § 388-96-585, filed 12/30/77.]

See WSR 95-14-119

WAC 388-96-704 Prospective reimbursement rates.

(1) The department will determine prospective reimbursement rates for services provided to recipients. Each rate represents the contractor's maximum compensation for one patient day of care of a recipient determined by the department to require nursing facility care.

(2) A contractor may also be assigned an individual prospective rate for a specific recipient determined by the department to require exceptional care.

[Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-704, filed 5/26/94, effective 6/26/94. Statutory Authority: RCW 74.09.120, 82-21-025 (Order 1892), § 388-96-704, filed 10/13/82. Statutory Authority: RCW 74.08.090 and 74.09.120, 78-06-080 (Order 1300), § 388-96-704, filed 6/1/78. Statutory Authority: RCW 74.09.120, 78-02-013 (Order 1264), § 388-96-704, filed 1/9/78.]

WAC 388-96-705 Payment for services after settlement. When payment for services is first made following preliminary or final settlement for the period during which the services were provided, payment will be at the most recent available settlement rate.

[Statutory Authority: RCW 74.09.120, 81-22-081 (Order 1712), § 388-96-705, filed 11/4/81.]

See WSR 95-14-119

WAC 388-96-709 Prospective rate revisions—Reduction in licensed beds. (1) The department will revise a contractor's prospective rate when the contractor reduces the number of its licensed beds and:

(a) Notifies the department in writing thirty days before the licensed bed reduction; and

(b) Supplies a copy of the new bed license and documentation of the number of beds sold, exchanged or otherwise placed out of service, along with the name of the contractor that received the beds, if any; and

(c) Requests a rate revision.

(2) The revised prospective rate shall comply with all the provisions of rate setting contained in this chapter including all lids and maximums unless otherwise specified in this section and remain in effect until a prospective rate can be set according to WAC 388-96-713.

(3) The revised prospective rate shall be effective the first of a month determined by where in the month the effective date of the licensed bed reduction occurs or the date the contractor complied with subsections 1(a), (b), and (c) of this section as follows:

(a) If the contractor complied with subsection 1(a), (b), and (c) of this section and the effective date of the reduction falls:

(i) Between the first and the fifteenth of the month, then the revised prospective rate is effective the first of the month in which the reduction occurs; or

(ii) Between the sixteenth and the end of the month, then the revised prospective rate is effective the first of the month following the month in which the reduction occurs; or

(b) When the contractor fails to comply with subsection 1(a) of this section, then the date the department receives

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from the contractor the documentation that is required by subsection (1)(b) and (c) of this section shall become the effective date of the reduction for the purpose of applying subsection (3)(a)(i) and (ii) of this section.

(4) For the first fiscal year of a state biennium, if a contractor's prospective rate is based on either WAC 388-96-710(4) or WAC 388-96-719(2), the department shall revise the contractor's prospective rate as follows:

(a) For the nursing service and food cost centers, the rate will remain the same as before the reduction in licensed beds;

(b) For property, administrative, and operational cost centers; and return on investment rate, the department will use the reduced total of licensed beds to determine occupancy level under WAC 388-96-719(10). If the department computed the contractor's occupancy level of licensed beds on the Medicaid cost report for the calendar year immediately prior to the first fiscal year of the state biennium in which the bed reduction occurs and the occupancy level:

(i) Was above eighty-five percent and remains above eighty-five percent after the reduction, then the department will:

(A) Not change the administrative and operational rate;

(B) Recompute the property rate to reflect the new asset basis using actual patient days from the Medicaid cost report for the prior calendar year; and

(C) Recompute the return on investment rate to reflect the new asset basis and the change in the property cost center using actual patient days from the Medicaid cost report for the prior calendar year.

(ii) Was below eighty-five percent and changes to at or above eighty-five percent after the reduction, then the department will recompute rates for:

(A) Administrative and operational cost centers using actual patient days from the Medicaid cost report for the calendar year immediately prior to the first fiscal year of the state biennium in which the bed reduction occurs; and

(B) Property and return on investment cost centers using actual patient days from the Medicaid cost report for the prior calendar year and the new asset basis.

(iii) Was below eighty-five percent and remains below eighty-five percent after the reduction, then the department will recompute rates for:

(A) Administrative and operational cost centers using the change in patient days from the Medicaid cost report for the calendar year immediately prior to the first fiscal year of the state biennium in which the bed reduction occurs that results from the reduced number of licensed beds used in calculating the eighty-five percent occupancy level; and

(B) Property and return on investment cost centers using the change in patient days from the Medicaid cost report for the prior calendar year that results from the reduced number of licensed beds used in calculating the eighty-five percent occupancy level and to reflect the new asset basis.

(5) For the second fiscal year of a state biennium, the department shall revise the contractor's prospective rate, as identified under subsection (4) of this section, as follows:

(a) For the nursing service and food cost centers, the rate will remain the same as before the reduction in licensed beds;

(b) For property and return on investment rates and to determine a new occupancy level under WAC 388-96-

719(10), the department will use the reduced total of licensed beds and the cost report from the prior calendar year:

(c) If the occupancy level prior to the bed reduction:

(i) Was above eighty-five percent and remains above eighty-five percent after the reduction, then the department will:

(A) Not revise the administrative or operational rates; and

(B) Recompute the property rate to reflect the new asset basis using actual patient days from the Medicaid cost report for the prior calendar year; and

(C) Recompute the return on investment rate to reflect the new asset basis and the change in the property cost center using actual patient days from the Medicaid cost report for the prior calendar year.

(ii) Was below eighty-five percent and changes to eighty-five percent or above after the reduction, then the department will:

(A) Not revise the administrative or operational rates; and

(B) Revise property and return on investment using actual patient days from the Medicaid cost report for the prior calendar year and the new asset basis.

(iii) Was below eighty-five percent and remains below eighty-five percent after the reduction, then the department will:

(A) Not revise administrative or operational rates; and

(B) Revise the property and return on investment rates using the change in patient days from the Medicaid cost report for the prior calendar year that results from the reduced number of licensed beds used in calculating the eighty-five percent occupancy level and to reflect the new asset basis.

(6) If a contractor's prospective rate is based on either a sample or budget per WAC 388-96-710, the department shall revise the contractor's prospective rate by applying subsection (4)(a) and (b) or (5)(a) and (b) of this section as applicable and:

(a) Using the days from the timely received budget per WAC 388-96-026(2) and using occupancy as "selected" by the department when the initial rate was set; or

(b) If the budget was not received timely in accordance with WAC 388-96-026(2), using the product of the statewide average occupancy as reported on all nursing facilities' prior calendar year Medicaid cost reports multiplied by the number of calendar days in the calendar year following the decrease licensed bed capacity multiplied by the number of licensed beds on the new license.

[Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-709, filed 5/26/94, effective 6/26/94. Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120, 93-12-051 (Order 3555), § 388-96-709, filed 5/26/93, effective 6/26/93.]

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WAC 388-96-710 Prospective reimbursement rate for new contractors. (1) The department shall establish an initial prospective reimbursement rate for a new contractor as defined under WAC 388-96-026 (1)(a) or (b) within sixty days following receipt by the department of a properly completed projected budget (see WAC 388-96-026). The rate shall take effect as of the effective date of the contract and shall comply with all the provisions of rate setting

contained in this chapter including all lids and maximums set forth in this chapter.

(2) To set the initial prospective reimbursement rate for a new contractor as defined in WAC 388-96-026 (1)(a) and (b), the department shall:

(a) Determine whether the new contractor belongs to the metropolitan statistical area (MSA) peer group or the non-MSA peer group using the latest information received from the office of management and budget or the appropriate federal agency;

(b) Select all nursing facilities from the department's records of all the current Medicaid nursing facilities in the new contractor's peer group with the same bed capacity plus or minus ten beds. If the selection does not result in at least seven facilities, then the department will increase the bed capacity by plus or minus five bed increments until a sample of at least seven nursing facilities is obtained;

(c) Based on the information for the nursing facilities selected under subsection (2)(b) of this section and available to the department on the day the new contractor began participating in the program, rank from the highest to the lowest the rates in nursing services, food, administrative, and operational cost centers and based on this ranking:

(i) Determine the rate in the middle of the ranking, above and below which lie an equal number of rates (median) and then identify the rate immediately above the median for each cost center identified in subsection (2)(c) of this section. The rate immediately above the median will be known as the "selected rate" for each cost center; and

(ii) Set the new contractor's rates for each cost center identified in subsection (2)(c) at the lower of the "selected rate" or the budget rate; and

(iii) Set the property rate in accordance with the provisions of this chapter; and

(iv) Set the return on investment rate in accordance with the provisions of this chapter. In computing the financing allowance, the department shall use for the nursing services, food, administrative, and operational cost centers the rates set pursuant to subsection (2)(c)(i) and (ii) of this section.

(d) Any subsequent revisions to the rate components of the sample members will not impact a "selected rate" component of the initial prospective rate established for the new contractor under this subsection, *unless*, a "selected rate" identified in subsection (2)(c) is at the median cost limit established for July 1, then the median cost limit established after October 31 for that "selected rate" component becomes the component rate for the new contractor.

(3) If the department has not received a properly completed projected budget from the new contractor as defined under WAC 388-96-026 (1)(a) or (b) at least sixty days prior to the effective date of the new contract, the department shall establish rates for:

(a) Nursing services, food, administrative and operational cost centers based on the "selected rates" as determined under subsection (2)(c) of this section that are in effect on the date the new contractor began participating in the program; and

(b) Property in accordance with the provisions of this chapter using for the new contractor as defined under:

(i) WAC 388-96-026 (1)(a), information from the certificate of need; or

(ii) WAC 388-96-026 (1)(b), information provided by the new contractor within ten days of the date the department requests the information in writing. If the contractor as defined under WAC 388-96-026 (1)(b), has not provided the requested information within ten days of the date requested, then the property rate will be zero. The property rate will remain zero until the information is received.

(c) Return on investment rate in accordance with the provisions of this chapter using the "selected rates" established under subsection (2)(c) of this section that are in effect on the date the new contractor began participating in the program, to compute the working capital provision and variable return for the new contractor as defined under:

(i) WAC 388-96-026 (1)(a), information from the certificate of need; or

(ii) WAC 388-96-026 (1)(b), information provided by the new contractor within ten days of the date the department requests the information in writing. If the contractor as defined under WAC 388-96-026 (1)(b), has not provided the requested information within ten days of the date requested, then the net book value of allowable assets will be zero. The financing allowance rate component will remain zero until the information is received.

(4) The initial prospective reimbursement rate for a new contractor as defined under WAC 388-96-026 (1)(c), shall be the last prospective reimbursement rate paid by the department to the Medicaid contractor operating the nursing facility immediately prior to the effective date of the new contract.

(5) If the new contractor as defined under WAC 388-96-026 (1)(a), (b), or (c) began participating in the program beginning in the first year of a state fiscal biennium or had its first year of a state fiscal biennium rate set under WAC 388-96-710(6), its July 1 prospective reimbursement rate for the second year of that state fiscal biennium shall:

(a) Be the initial prospective rate set in accordance with WAC 388-96-710 inflated in accordance with WAC 388-96-719; and

(b) Remain in effect until a prospective rate can be set under WAC 388-96-713.

(6) If the new contractor began participating in the program beginning in the second year of a state fiscal biennium, its July 1 prospective reimbursement rate for the first year of the next state fiscal biennium will be set for the new contractor defined under:

(a) WAC 388-96-026 (1)(a) and (b), by applying WAC 388-96-710 (2) and (3) using the July 1 rate components established for the first year of the state's fiscal biennium following the second year of the state's fiscal biennium in which the new contractor began participating in the program; or

(b) WAC 388-96-026 (1)(c), by using twelve months of cost report data derived from the old contractor's data and the new contractor's data for the cost report year prior to the first year of the state fiscal biennium for which the rate is being set and applying WAC 388-96-719 through 388-96-754 to set the component rates.

(7) For July 1, 1993 rate setting only, if a new contractor as defined under WAC 388-96-026(1) is impacted by the peer group median cost plus twenty-five percent limit in its nursing services cost, such contractor shall not receive a per patient day prospective rate in nursing services for July 1.

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1993 lower than the same contractor's prospective rate in nursing services as of June 30, 1993, as reflected in departmental records as of that date, inflated by any increase in the IPD Index authorized by WAC 388-96-719.

[Statutory Authority: RCW 74.46.800, 94-12-043 (Order 3737), § 388-96-710, filed 5/26/94, effective 6/26/94; 93-17-033 (Order 3615), § 388-96-710, filed 8/11/93, effective 9/11/93. Statutory Authority: RCW 74.46.800, 74.46.450 and 74.09.120, 93-12-051 (Order 3555), § 388-96-710, filed 5/26/93, effective 6/26/93. Statutory Authority: RCW 74.46.800, 92-16-013 (Order 3424), § 388-96-710, filed 7/23/92, effective 8/23/92. Statutory Authority: 1987 c 476, 88-01-126 (Order 2573), § 388-96-710, filed 12/23/87. Statutory Authority: RCW 74.46.800, 87-09-058 (Order 2485), § 388-96-710, filed 4/20/87. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-710, filed 9/16/83; 78-02-013 (Order 1264), § 388-96-710, filed 1/9/78.]

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WAC 388-96-713 Rate determination. (1) Each contractor's reimbursement rate will be determined prospectively once each state biennium as provided in this chapter to be effective July 1 of the first fiscal year of each biennium. Rates shall be adjusted as provided in this chapter to be effective July 1 of the second year of each biennium and may be adjusted more frequently to take into account program changes.

(2) If the contractor participated in the program for less than six months of the prior calendar year, its rates will be determined by procedures set forth in WAC 388-96-710.

(3) Beginning with rates effective July 1, 1984, contractors submitting correct and complete cost reports by March 31st, shall be notified of their rates by July 1st, unless circumstances beyond the control of the department interfere.

[Statutory Authority: RCW 74.46.800 and 74.09.120, 93-19-074 (Order 3634), § 388-96-713, filed 9/14/93, effective 10/15/93; 90-09-061 (Order 2970), § 388-96-713, filed 4/17/90, effective 5/18/90. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-713, filed 9/16/83; 81-15-049 (Order 1669), § 388-96-713, filed 7/15/81; 80-06-122 (Order 1510), § 388-96-713, filed 5/30/80, effective 7/1/80; 78-02-013 (Order 1264), § 388-96-713, filed 1/9/78.]

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WAC 388-96-716 Cost areas. A contractor's overall reimbursement rate for medical care recipients shall consist of the total of six component rates, each covering one cost area. The six cost areas are:

- (1) Nursing services;
- (2) Food;
- (3) Administrative;
- (4) Operational;
- (5) Property; and
- (6) Return on investment.

[Statutory Authority: RCW 74.46.800 and 74.09.120, 93-19-074 (Order 3634), § 388-96-716, filed 9/14/93, effective 10/15/93. Statutory Authority: RCW 74.46.800, 92-16-013 (Order 3424), § 388-96-716, filed 7/23/92, effective 8/23/92. Statutory Authority: 1987 c 476, 88-01-126 (Order 2573), § 388-96-716, filed 12/23/87. Statutory Authority: RCW 74.09.120, 84-24-050 (Order 2172), § 388-96-716, filed 12/4/84; 83-19-047 (Order 2025), § 388-96-716, filed 9/16/83; 81-15-049 (Order 1669), § 388-96-716, filed 7/15/81; 80-06-122 (Order 1510), § 388-96-716, filed 5/30/80, effective 7/1/80; 78-02-013 (Order 1264), § 388-96-716, filed 1/9/78.]

WAC 388-96-717 Desk review adjustments. (1) The department shall analyze each annual cost report to determine if the information is correct, complete, and reported in conformity with generally accepted accounting principles, the nursing home accounting and reporting manual, and instruc-

ment to determine whether reported information is correct and complete may include, but is not limited to:

- (a) An examination of reported costs for prior years;
- (b) An examination of desk review adjustments made in prior years and their final disposition; and
- (c) An examination of findings, if any, from field audits of cost reports from prior years and findings, if any, from the field audit of the cost report under analysis.

(2) If it appears from this analysis a contractor has not correctly determined or reported its costs, the department may make adjustments to the reported information for the purpose of establishing reimbursement rates. A schedule of such adjustments shall be provided to contractors and shall include an explanation of the adjustment and the dollar amount of the adjustment for each adjustment made. If a contractor believes an adjustment is in error, the adjustment shall be subject to review pursuant to WAC 388-96-769 and, if a satisfactory resolution of issues is not reached, to further review pursuant to WAC 388-96-901 and 388-96-904.

(3) The department shall accumulate data from properly completed cost reports for use in exception profiling and establishing rates.

(4) The department may further utilize such accumulated data for analytical, statistical, or informational purposes as deemed necessary by the department.

[Statutory Authority: RCW 74.09.120, 74.46.840 and 74.46.800, 85-17-052 (Order 2270), § 388-96-717, filed 8/19/85. Statutory Authority: RCW 74.09.120, 83-19-047 (Order 2025), § 388-96-717, filed 9/16/83.]

See WSR 95-14-119

WAC 388-96-719 Method of rate determination.

(1) The principles contained in this section are inherent in rate setting effective with July 1, 1993 and following nursing facility prospective rates.

(2) Reimbursement rates shall be established or adjusted prospectively, on a per patient day basis, once each calendar year, to be effective July 1, and shall follow a two-year cycle corresponding to each state fiscal biennium; provided that, a nursing facility's rate for the first fiscal year of any biennium, unless the operator qualifies as a "new contractor" under the provisions of this chapter, must be established upon its own prior calendar year cost report data covering at least six months.

(3) A contractor's rates in the nursing services, food, administrative, and operational cost centers for the first year of the state fiscal biennium (first fiscal year) shall be adjusted downward or upward for economic trends and conditions when set effective July 1 of the first fiscal year in accordance with subsections (4), (5) and (6) of this section, and adjusted again downward or upward for economic trends and conditions effective July 1 of the second year of the state fiscal biennium (second fiscal year) in accordance with subsections (7), (8) and (9) of this section.

(4) The July 1 cost center rates referenced in subsection (3) of this section shall, for the first fiscal year of each biennium, be adjusted by the change in the Implicit Price Deflator for Personal Consumption Expenditures Index published by the United States Department of Commerce, Economics and Statistics Administration, Bureau of Economic Analysis ("IPD Index").

(5) The period used to measure the change in the IPD Index shall be the calendar year preceding the July 1